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ECONOMIC TRENDS AND PROSPECTS IN THE NEAR EAST*

I. Characteristics of the Area

A. Introduction

Economic activity in the Middle East, North Africa, and the Horn is heavily dependent on unevenly distributed oil and water resources. Because much of the region is arid or semi-arid, population has tended to concentrate near rivers and in coastal regions. The extensive petroleum deposits have been discovered primarily in or near desert areas where the population is sparse. Political boundaries are such that some of the most populated countries -- for example, Egypt -- have comparatively little oil but heavy population pressure on arable land and great difficulty in financing economic development. At the same time, countries with small populations, like Libya and Saudi Arabia, have more money than they can use effectively.

Almost every degree of economic prosperity or poverty can be found in the area. At the bottom of the welfare scale is Somalia, where per capita income is less than $100 annually and the population explosion has yet to occur. The rest of the Horn of Africa possesses a more varied natural endowment than North Africa and the Middle East but remains extremely primitive. At the top of the scale is Kuwait, with the world's highest

* For these comments and projections, no consideration was given to the disruption or ultimate effects of the Israeli-Arab crisis.

per capita income. Israel trails Kuwait in income terms but is easily the most diversified and developed country in the area. Virtually all of the countries in the area are struggling with serious development problems.

Economic developments in the area are subject to violent disruption by political factors. Many of the governments are of dubious viability (Syria, Iraq, Sudan, Somalia) or depend for stability on a single, sometimes ageing man (Libya, Ethiopia, Iran, Saudi Arabia, Morocco, Tunisia, Egypt). Long-standing animosities continually erupt both internally and internationally. Hence, observable trends may persist uninterrupted for a few years or may undergo sudden, violent upheaval.

B. Agriculture

Agricultural production in most of the Near East and North Africa is increasing more slowly than population. (See Table 1 for indexes of agricultural production.) As in all underdeveloped countries, primitive techniques, irrational land use, and limited credit impede the growth of production, while population growth at rates of 2.5 percent to 3.5 percent annually increases the pressure on food supplies. In most of the countries in the area 50 percent or more of the population is engaged in agriculture. With few exceptions, rainfed agriculture is either impossible or highly uncertain. Consequently, expansion of the arable area and control of the wide fluctuations in output require an enormous investment in the development of water resources -- such as irrigation and flood control.

Unique cases, of little relevance to the rest of the area, are found in Iraq and Israel. Iraq is fortunate in having a large amount of arable land in relation to the size of its population. Israel has devoted large sums of money, mostly foreign in origin, and an energetic labor force to making the desert bloom.

Jordan, Lebanon, and the UAR have managed to increase or maintain per capita agricultural output in recent years. In each of the three, techniques are relatively advanced and a substantial share of resources is devoted to high-value commercial farming, primarily for export. Egyptian cotton and Jordanian and Lebanese fruits and vegetables are exchanged on world markets for larger quantities of basic foods than the countries themselves could hope to grow. Such commercial agriculture offers opportunities for further gains and is an example for other countries in the area. Even in Egypt, where output per acre is among the highest in the lesser developed world, techniques and land utilization could be improved greatly.

The area has little chance of becoming self-sufficient in basic foodstuffs without some impressive breakthrough in cereal technology, but balanced foreign trade in agricultural commodities is a realistic goal. With new cereal varieties, widespread use of commercial fertilizer, and development of supplementary water sources, countries like Jordan, Iraq, and the Sudan could take advantage of their reliable flood rivers to regain their historical status as granaries. In other countries, notably those of the Maghreb,

concentration on orchards and other water-saving crops appears more appropriate. Substantial progress in agriculture will be expensive to achieve, however, and at best per capita output is likely to rise only slowly in the area as a whole.

C. <u>Petroleum</u>

Petroleum is the primary source of western interest in the area. The Persian Gulf area alone supplies 64 percent of all oil imported by the U.K. and some one half billion dollars annually in convertible currency earned by British petroleum companies. Together the Near East and North Africa are the single most important source of oil for Western Europe. Only a small fraction of the petroleum products consumed in the US originate in the area, but US oil companies earn about one billion dollars in the Arabian Peninsula each year. The US interests that dominate production in Libya are now repatriating a quarter of a billion dollars of net income annually.

Oil reserves in the Near East, not including Africa, represent more than 60 percent of the world's estimated total. The area contains 6 times the crude reserves of the United States. Kuwait (17 percent of the world total), Saudi Arabia (17 percent), and Iran (11 percent) each have reserves greater than the United States. Proved reserves are increasing faster in the Near East than in any other part of the world. In 1965 the Near East accounted for nearly 50 percent of all oil -- crude and refined -- moving in international trade.

North African reserves at the end of 1966 were estimated to total 33 billion barrels, or another 7 percent of the world total. Libya is the giant, with production increasing 75 percent between 1964 and 1966. Algeria boasts sizeable resources, and commercial quantities of oil recently have been found in Tunisia. Important discoveries also have been made in the Red Sea and Western Desert areas of Egypt.

II. Factors in Economic Growth

In general, significant economic growth has taken place only in those countries with outstanding good fortune, in the form of either oil or foreign aid. The exceptions are Lebanon, which has developed a thriving service-based economy, and Iran, which has based its growth on a combination of foreign aid, oil revenues, and rising domestic savings.

Aid alone has proved an uncertain source of growth. Tunisia has managed a rapid growth rate by means of massive foreign aid and borrowing, but its balance of payments problems are acute, and foreign debt service now absorbs about one-fourth of export earnings. Israel and Jordan, beneficiaries of large scale foreign assistance, have escaped payments problems only because this assistance has been in the form of official grants and private remittances. Aid to Syria and Algeria may have prevented sharp declines, but their economies have stagnated at low levels. Egypt, the largest Arab recipient of aid, has achieved only moderate per capita growth and may face a decline in the next few years. An already dense population is growing rapidly, and severe balance of payments problems are complicated by a mountain of foreign debt.

The major oil countries, on the other hand, have grown economically in spite of themselves. With crude oil output increasing in some countries by as much as 25 percent annually, incomes and foreign exchange holdings have skyrocketed. In many cases, notably Saudi Arabia and the Persian Gulf Sheikdoms, the ruling families so far have been the chief beneficiaries. That situation appears to be changing gradually, however, particularly in Saudi Arabia. In Kuwait and Libya, extensive programs of social and economic development are being financed from oil income.

Petroleum may well become a vastly more important factor in the economic development of the entire Near East. Major producing countries are beginning to devote some of their accumulated funds to development throughout the area. Reserves are found almost yearly in previously "have-not" countries. Recent oil discoveries in Egypt appear to offer a solution for what otherwise appears to be a hopeless foreign debt and payments morass. In Tunisia, one known deposit will eliminate oil import needs and provide substantial foreign exchange earnings.

Private investment, either foreign or domestic, has played a small role in general economic development. Only the prospects for lucrative returns from petroleum have proved sufficient to attract capital in face of the risks and inconvenience characteristic of business operations in the area. Such discouraging factors as limited markets have been minor impediments compared with the political risks. Where socialism is an active creed, nationalization is a constant threat. Where conservative regimes are in

power, nationalization is a potential hazard. Even under relatively stable governments, excessive regulation makes private investment almost prohibitively tiresome. The more affluent oil economies provide exceptional markets for western goods, but domestic private investment funds are likely to flow to safehavens abroad as insurance against sudden political upheaval.

Political and social forces also have limited the size and diminished the effectiveness of resources available to the government for economic development. For example, Iraq's refusal to come to terms with the oil companies over oil concessions has held down oil output and revenues. Moreover, many governments use a large part of revenues to finance internal security operations or large military establishments. Even those funds that are used for basically economic purposes are often disbursed according to political rather than economic criteria. Misallocations of resources have been especially serious in countries like Syria, Iraq, and Algeria where the regimes have been insecure, inexperienced, and dogmatic. The result is to tie up large resources in projects that contribute little to economic progress and in some cases can survive only if subsidized indefinitely.

Economic cooperation among the Middle East countries, presently minimal, could benefit the area significantly. Many important development opportunities cannot be realized without international collaboration. The Aswan High Dam could not have been built without agreement between Egypt and the Sudan. Rational development of the Euphrates River depends on a mutually satisfactory agreement among Syria, Iran, and Turkey. Iran could derive substantial benefits

from cooperation with Turkey, Pakistan, and Afghanistan.

Opportunities also exist for extensive regional integration. The Maghreb, a prime example, was administered to some extent as a single economic entity by the French. An economic union of Algeria, Morocco, and Tunisia plus Libya would offer obvious benefits. Libya has a surplus of investment funds and a shortage of labor. Tunisia is relatively poor in physical resources, but the Tunisian population is significantly better educated and more highly skilled than the people of the rest of North Africa. Libya and Algeria have vast resources of natural gas and petroleum, and Morocco and Tunisia together could easily rival the United States as a producer of phosphate. By cooperative use of these resources, North Africa could become a major factor in the rapidly growing world fertilizer market. The North African countries also might enhance their chances for associate membership in the European Economic Community if they could apply as a unit rather than compete for preference.

International trade and transactions are vital to the region, largely because of its lopsided resource endowment. Any extended interruption in the flow of petroleum, for example, would spell disaster for the modern sectors of the economies of the producing countries. Inability to import foodstuffs would constitute a severe hardship in many countries. A cutoff of aid and imported capital equipment would harm all countries in the region and devastate most of the development programs.

III. Patterns of Economic Performance

A. General

The area is characterized by wide discrepancies in economic performance among countries. In Libya, Kuwait, Israel, and Lebanon, per capita income has been growing rapidly for some years and now ranges from $360 (Lebanon) to $3,300 (Kuwait). (See Table II.) Recently, two poor nations, Tunisia and Iran, have joined the ranks of rapidly progressing economies. In all other countries per capita incomes are growing either slowly or not at all.

Little improvement in the growth of per capita income or reduction in the large income differentials among countries can be expected during the next few years. The older oil economies (notably Kuwait) have gained affluence rapidly. The rate of increase in per capita income is now declining, a pattern which Libya and the newly rich Persian Gulf Shiekdoms may be expected to follow. Similarly, Israel, which has experienced a phenomenal rate of growth, is now entering a period of lesser accomplishment. Few of the remaining countries are likely to maintain a higher rate of growth than these relatively wealthy countries. Except for Tunisia and Iran, which have good prospects for rapid growth, the relatively poor countries in the area are likely to grow more slowly than the wealthier countries and, in many cases, more slowly than in the past.

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B. Country Sketches

1. Iran

Iran is the emerging giant of the area, with a Gross National Product of about $5.5 billion, $1 billion larger than Egypt's and $3 billion larger than Israel's. Per capita income, now about $220, has been rising since 1965 at 5 percent per annum. In contrast to most of the area, Iran has not depended for development exclusively on either petroleum revenues or foreign aid, and growth has been achieved without serious balance of payments problems or burdensome foreign debt. Petroleum revenues are an important source of investment funds but provide only half of total government income. Petroleum accounts for 75 percent of export earnings but only 16 percent of GNP. Similarly, foreign aid, while important, has provided only about 10 percent of gross investment.

Iran apparently is making progress in overcoming many of the agricultural problems afflicting its neighbors to the south and west. The Shah's land reform program and the expansion of irrigation facilities have increased the land under cultivation and enabled agricultural output to keep pace with the increase in population. With the relatively low yields now prevalent, ample opportunities are available for increasing per capita agricultural output by accelerating development of water resources and by improving farm techniques.

With continued implementation of the Shah's reform programs, and political stability, Iran will have a sound basis for future economic

development. Substantial domestic savings, latitude for foreign borrowing, and good relations with the Consortium that exploits Iran's oil should continue to ensure that financing will be available. Although the 5 percent annual increase in per capita incomes anticipated by the Iranian government may be overly optimistic, continued growth in excess of 3 percent seems a realistic forecast.

2. <u>The Oil Economies</u>

During the past decade, several of the most barren areas of the Middle East have become booming oil economies. In areas where primitive agriculture, nomadic herding, and minor trade were the historical sources of scant income, oil now provides from 50 percent to as much as 80 percent of GNP and almost all government revenues. Revenues chronically exceed expenditures, and foreign exchange reserves are mounting. The phenomenal rate of increase in per capita incomes during the early years of oil production in each country may decline, but rising world demand for oil virtually insures increasing prosperity for the foreseeable future. Generally vulnerable both politically and territorially, the conservative governments of the oil-rich countries have begun to offer financial assistance to needy neighbors, in part as tribute to maintain political peace.

a. <u>Kuwait</u>

Kuwait is the most affluent of the oil economies and is the model newly-rich oil countries are most likely to follow. In the

past ten years, GNP has increased about 12 percent annually, and, largely as a result of immigration from the poorer Arab countries, population has grown by 9 percent annually, resulting in annual increases in per capita income of 3 percent. After almost two decades of petroleum exploitation, this desert kingdom of 470,000 people has the highest per capita income in the world, a guaranteed income from investments abroad, a vast social welfare program, and foreign exchange holdings of some $3.8 billion.

Even before Kuwait became fully independent of the United Kingdom, a program of aid to other Arab countries was initiated. Through 1966, loans totalling about $520 million had been disbursed or promised. The Kuwaiti Fund for Arab Economic Development had provided $110 million in loans for specific development projects; the National Assembly had voted an additional $410 million in loans from general reserves. This latter financing is motivated almost wholly by political rather than developmental considerations.

b. Libya

Libya is undergoing all the growing pains of an adolescent oil economy. Since oil exploitation began some seven years ago, per capita income has risen almost 8 percent annually. With commercial exploitation occurring in less than half of Libya's 136 existing oil concessions, the boom should continue for at least another five years. Meanwhile, the inflow of money has created inflationary pressures that

are barely controlled, labor shortages have developed, and agriculture has begun to deteriorate as peasants migrate to the cities.

To date, Libya has assisted its neighbors only reluctantly, apparently under the delusion that all its wealth can be spent effectively at home. In practice, the government consistently underestimates its income and overestimates its expenditures. Overseas expenditures fall far short of foreign exchange income, and by early 1967 some $640 million in foreign exchange reserves had been accumulated. During the next few years, however, Libya probably will be pressured to follow Kuwait's example, insuring its future by sharing some of its wealth with neighboring states.

c. Saudi Arabia

Saudi Arabia is by far the most primitive of the larger oil economies. [redacted] 25X6

[redacted] 25X6

Oil dominates the economy even more completely than in Kuwait, as other modern sectors remain largely undeveloped. Petroleum provides more than 80 percent of government income and almost 100 percent of export earnings. Most of the population outside the oil sector, scattered widely over a huge and barren area, still subsists on traditional herding and handicrafts.

Under King Faisal, Saudi Arabia has begun small-scale contributions to other Arab countries and is striving to disperse oil income more widely within Saudi Arabia itself. If the government continues to

distribute oil income more widely, Saudi Arabia could acquire almost overnight the mushrooming modern cities, the growing service sectors, and the labor shortage problems that typify Kuwait and Libya. Signs of such a future are beginning to appear, particularly in construction of new housing and office buildings.

d. Persian Gulf Sheikdoms

[redacted] 25X6

25X6 [redacted] Commercial oil production has been underway in Bahrein, Qatar, and Abu Dhabi for some time. Production began in Muscat and Oman in 1967 and will begin in Dubai in the near future.

Bahrein, site of the first oil discovery in the Arabian Peninsula, is easily the most modern of these principalities. It is a major oil refining center. Its role as a producer of crude oil has been relatively minor, although as a result of exploitation of a new field total oil income increased from $18 million in 1964 to an estimated $26 million in 1966. The remainder of Bahrein's income is derived from its traditional roles as a trading center and fishing port and its new role as the most recent headquarters for Britain's Middle East military establishment. Bahrein's rulers have been relatively enlightened in the use of their revenues. Bahrein has had modern schools for half a century and well over half the government's expenditure is devoted to education, health, and development projects, such as piped water, village electrification, and road construction.

Qatar and Abu Dhabi stand in unhappy contrast. In Qatar, oil has been produced commercially since 1949, and revenues from oil are expected to total about $100 million in 1967 -- as much as $1,500 per head. [redacted] 25X6

25X6 Qatar's development 25X6 program has increased little since 1953. In Abu Dhabi, commercial production began only in 1962. Output is growing rapidly, and a number of fields remain unexploited. Oil revenues totalled about $30 million in 1965, grew to $71 million in 1966, and are expected to reach $112 million by 1970. [redacted] 25X6

25X6

25X6 Sheik Zayid has launched an extensive development program in the past few months, and Abu Dhabi suddenly is becoming a boom town. Even after all existing and projected development projects are financed, however, Abu Dhabi will have an embarrassment of riches. Financial reserves are expected to reach some $280 million by 1970.

Muscat and Oman will be the next of the new rich. Commercial discoveries were made in 1964, and exploitation began in mid-1967, with completion of a pipeline from the inland field to the coast. The Sultanate's total revenues will jump from about $11 million in 1966 to $50 million in 1968, wholly as a result of oil. The 1966 figure included only $1 million in oil payments; a British subsidy of more than $7 million was the major

source of income. Increased oil revenues enabled the U.K. to terminate these military support payments in March 1967. [redacted] 25X6

25X6

[redacted]

Dubai also stands to benefit from oil in the near future. Commercial discoveries were confirmed in 1966, and an exploitation company has been formed.

3. <u>The Horn of Africa</u>

The Horn of Africa is the poorest, least developed region in the area under consideration. Serious investigation of resources has only begun, and most known assets are underexploited. Population is growing only slowly, because early death is common. Many of the inhabitants remain completely apart from the money economy.

Somalia is the least developed of the three major countries comprising the Horn and faces the bleakest future. Some 70 percent of the people are nomadic herders; the remaining 30 percent are engaged largely in primitive agriculture. Since independence, foreign aid has been a

temporary substitute for the price advantages given to Somalian goods under Italian rule, but the United States aid program is being phased out, and no new donor of economic aid has appeared. Scanty government revenues are being spent to promote the Pan-Somali concept by encouraging dissidence in Ethiopia and Kenya.

Ethiopia is only slightly less destitute than Somalia, but Ethiopian prospects are better. Only about 10 percent of Ethiopia's vast expanse is cultivated but this cultivated area could be greatly expanded. Mineral resources, although generally unsurveyed, are believed to be substantial. Economic conditions are unlikely to show much improvement, however, so long as the government continues to devote its major effort to securing its own existence.

The Sudan is the least impoverished country in the Horn, largely because commercial cotton cultivation was introduced by the British in the 19th Century. The Sudan has some unexploited agricultural land, but known mineral resources are scanty. Although about three-fourths of the population remains agrarian, industrial output has quadrupled since 1956. Sudanese economic development, however, is hampered by the high cost of combatting insurgency.

4. The Maghreb

Tunisia, Morocco, and Algeria share a common economic history and similar economic problems. Each remains partially dependent on France;

each must contend with a difficult climate. About 25-30 percent of the area is considered arable, but recurrent drought devastates rainfed crops, reduces irrigation capability, and tends to negate efforts to increase agricultural output.

The greatest common asset of these countries is tourist appeal. With warm weather, lovely beaches, and exotic ports and bazaars, the three could become a favored vacation area. Morocco and Tunisia have begun to exploit this potential; Algeria remains xenophobic.

Tunisia, pursuing a program of pragmatic socialism, has sustained a growth rate for GNP of about 6 percent annually, despite a paucity of resources. Population growth has been brought under control by one of the world's few successful birth control programs. Development was initially impeded by nationalization and repatriation of the European community, but this source of skill and enterprise has been replaced by a growing and educated indigenous middle class. Government investment financed by massive foreign aid (primarily from the U.S.) and foreign borrowing has been the dominant factor in economic growth. Recently, government investment has been curtailed to ease inflationary pressures and stem the deterioration in the balance of payments. However, if political stability is maintained and impediments to private investment are reduced, Tunisia probably can maintain a 2.5 percent rate of growth in per capita GNP.

Algeria is in a state of stagnation and decline brought on largely by its strident socialism. French assistance and substantial oil revenues have amply compensated for the disorder and destruction of the long war for independence and for the loss of private investment as a result of economic disruption and extensive nationalization. However, no post-independence regime has been able to formulate and administer a coherent economic policy for the country nor has any group arisen to replace the Europeans who dominated the modern economy prior to independence. Continued stagnation is the most optimistic prognosis possible for the next few years.

Morocco, while more stable politically than Algeria, is little better off economically. Two successive drought years (1965/66 and 1966/67) have seriously reduced agricultural output and power generating capacity. French aid has been suspended for political reasons. Morocco has a serious shortage of skilled personnel, and the government has not as yet learned to utilize effectively the talent that does exist. Significant improvements in welfare are unlikely for the next five years.

5. <u>Israel</u>

Throughout its history the state of Israel has enjoyed financial resources far in excess of those generated by the domestic economy. The extra resources have come mainly from German reparations payments and personal restitutions, sale of bonds, and gifts from Jews abroad. This

inflow of funds has enabled Israel to establish one of the world's highest investment rates (more than 25 percent of GNP) without incurring significant foreign debt, and to create a higher standard of living than its own resources alone could sustain. Thanks to these funds and a skilled and hard-working population, Israel sustained an extremely high rate of economic growth -- 10 percent a year -- through 1964. In 1965-66 the 15 year boom halted abruptly. For the first time unemployment became a problem with 7 percent of the labor force jobless. Economic growth in 1966 dropped to less than 1 percent.

Israel undoubtedly will recover from the 1965-66 recession, but many of the ingredients of past growth are disappearing. As a result of reduced immigration, population growth has declined from 4 percent to about 3 percent per annum. German reparations have ended, curtailing the inflow of foreign exchange. Growth of imports will thus depend increasingly on the growth of exports, but these are severely hampered by high labor costs.

Israeli planners hope to obtain an annual growth rate of 5 percent in GNP, or about 2 percent per capita, in the next few years. Even this reduced growth can be achieved only if there are considerable and painful economic readjustments.

6. Lebanon

Until recently, Lebanon had a thriving service economy and was known as the Switzerland of the Middle East. For years, its banks have

handled the vast money flow of the Middle East. Private transfers and income from tourism and other services provided about 65 percent of foreign exchange earnings. Services, including housing, accounted for almost a fourth of National Income. For at least a decade, per capita income increased steadily by almost 3 percent annually.

A major crisis in the banking system recently has shaken confidence in the Lebanese financial community. In October 1966, one of Lebanon's largest banks, Intrabank, was closed following a run. Unless Lebanese banks can refurbish their image, their disregard for prudent banking practices may cost them heavily. The economic fate of the entire country is closely bound up with the banking system.

7. Syria

Syria is almost entirely dependent on agriculture for income and export earnings. Known mineral resources are scanty, and industry is very small although growing. Farming depends primarily on rainfall, which varies greatly from year to year. Most of the cash crops, including the major export cotton, are grown on large farms, but the bulk of the population eke out their livelihood on small farms or by herding.

Over the past decade, Syrian GNP has grown at about 4 percent annually (about 1 percent per capita). By 1966, government efforts to socialize the economy had led to confusion, inept administration, and corruption. Private economic activity has almost ceased except in

agriculture and domestic trade. Frequent changes in government for many years with accompanying political instability and lack of continuity have prevented effective implementation of economic policies. Stagnation or even decline in per capita income appears the likely prospect for some time to come.

8. <u>Jordan</u>

The Jordanian economy may be the most dependent in the Near East. More than 80 percent of the small, resource-poor country is barren desert. Jordan is burdened with the support of thousands of refugees from Arab Palestine, who contribute little to the economy and who pose a serious security problem. Jordan is heavily dependent on imports, financed through foreign assistance, and on earnings from tourism and other invisibles.

Despite its handicaps, Jordan recently has been showing signs of economic and political viability. Foreign aid has been received primarily in grant form, imposing no debt service problem. Growing industrial and services sectors and a prospering agriculture as a result of irrigation eventually may compensate for other deficiencies. If King Hussein holds his throne, and if external harrassment is kept within bounds, Jordan may continue to progress at its present pace -- a 2 percent annual increase in per capita income.*

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* The recent loss of West Jordan, even if permanent, is [illegible] to alter Jordan's prospects for per capita income growth. Total income, [illegible] will be reduced by about one-third so long as West Jordan [illegible].

9. Iraq

Iraq appears to possess the greatest potential for rapid economic growth in all the Near East. Iraq has ample fertile land in relation to its population and, as the world's eighth ranking crude petroleum producer, earns substantial foreign exchange.

For the past decade, however, political turmoil has stymied economic development, and the future depends largely on the stability and policies of the government. GNP has grown about 6 percent annually since 1957, far less than the country's potential growth. Economic growth has taken place mainly as a result of increases in petroleum output; agriculture has stagnated. The expansion of petroleum output itself has been held back by a long standing dispute with the foreign-owned Iraq Petroleum Company, which has brought petroleum investment to a halt. If this dispute is resolved, per capita income should continue to rise at the recent rate of about 2-2.5 percent annually. If, in addition, a genuine effort is made to revitalize agriculture, Iraq could achieve impressive growth.

10. [illegible]

In a sense, Egypt is a victim of its own success. In the 1960-64 period, for the first time in the twentieth century, economic expansion [illegible] population growth. Gross Domestic Product increased at an [illegible] annual rate of almost six percent, whereas population increased [illegible] rate of almost three percent. Gains in agricultural output kept up [illegible] population growth, while industrial production expanded by [illegible]

nine percent a year. Together, economic growth and welfare programs brought about a more equitable distribution of income and social benefits than in prerevolutionary times.

Progress, nevertheless, has been expensive and as a result Egypt is deeply in debt. Spending in excess of current income began under King Farouk and accelerated under the Nasir regime. By the early 1960's, reserves of gold and foreign exchange had fallen to a little more than $200 million, and Cairo was forced to resort to high-cost commercial borrowing to finance imports needed to maintain the pace of growth. Foreign debt, including drawings on long-term economic aid, now amounts to $2.5 billion, and servicing commitments use about a third of the foreign exchange available each year. Moreover, not all the expenditures for development were well conceived -- some were used to build and support industries that may never be profitable -- and a cumbersome bureaucracy runs nationalized enterprises inefficiently.

As the foreign exchange position deteriorated, strains in the domestic economy also became more severe. The government increasingly has had to rely on domestic borrowing, which in turn has created inflationary pressures.

Piecemeal attempts to relieve the balance of payments pressure are partly responsible for a recent slowdown in economic growth. Import curtailment has caused cuts in production in factories depending on foreign suppliers for raw materials and spare parts. Investment priorities

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have been rearranged in favor of projects for which foreign credit is available regardless of relative merit. In the 1965-67 period, growth probably averaged no more than about 5 percent annually, with population increase remaining at 3 percent. Development plans twice have been revised downward, with emphasis placed on maximum utilization of current productive facilities, rather than on new construction.

Two recent oil discoveries offer the only substantial hope for relief from the problems imposed by limited land, rapidly growing population, and unmanageable debt. A large new oil field in the Gulf of Suez began producing in April 1967, and a newly discovered field in the Western Desert is scheduled to begin production in January 1968. Egypt probably will have a substantial income from oil by 1970. A relatively slow rate of economic growth (perhaps 4 percent annually) probably will be achieved during 1967-70, followed by an acceleration to perhaps 6 percent annually in the early 1970's. For the next five years, therefore, per capita income is likely to inch upward at a rate of slightly less than 2 percent per annum.

Table I

Agricultural Production in the Near East, North Africa, and the Horn of Africa

Indexes: 1957-59 average = 100

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966 (Prelim.)
Algeria	102	97	101	106	79	100	104	91	90	72
Ethiopia	98	100	102	102	103	102	103	104	104	106
Iran	100	99	102	90	101	98	103	92	98	100
Iraq	112	101	88	87	87	95	82	84	84	77
Israel	84	101	114	120	123	130	128	137	139	129
Jordan	120	98	83	68	183	93	107	213	168	109
Lebanon	106	96	96	104	125	127	133	138	151	131
Libya	110	98	93	80	98	91	97	92	82	73
Morocco	89	112	98	101	74	93	99	93	101	79
Sudan	87	104	109	100	125	109	96	109	109	98
Syria	123	96	82	82	94	136	118	138	125	102
Tunisia	88	119	93	106	63	75	101	90	82	64
UAR	100	99	101	103	91	102	101	99	100	97

Table II

Economic Profiles, Near East, North Africa, and the Horn of Africa

% Increase in real per capita GNP (last recent five year period)	Approx. GNP per capita	Population rate > 2.5%	Population rate < 2.5%	Petroleum: % of GNP 15%	Petroleum: % of GNP 15%	Aid: % of investment > 15%		Aid: % of investment < 15%	Foreign medium & long term debt service: % of foreign exchange earnings > 10%		Foreign medium & long term debt service: % of foreign exchange earnings < 10%	Projection to 1972
I. 2.5% or greater												
Kuwait	3300	X		X				X			X	to IV
Israel	990	X			X	X			X			to III
Libya	530	X		X			na				X	
Lebanon	360	X			X		insig.			na		to III
Iran	220	X		16%				X			X	
Tunisia	185		X		X	X			X			
II. < 2.5% > 2%												
UAR	150	X			X	X			X			to III
Ethiopia	50		X		X		na				X	
III. < 2% > 0												
Jordan	230	X			X	X					X	
Iraq	210	X		X		X				na		
Syria	205	X			X	X				na		to IV
IV. 0 or less												
Algeria	180-220	X		X		X					X	
Morocco	160	X			X	X					X	
Sudan	105	X			X		15%			na		
Yemen	60-70	na			X		na			na		

Note: Available data is insufficient to calculate reliable statistics or projections for Saudi Arabia and the Persian Gulf Sheikhdoms and Aden.